



POLYSAR LIMITED
POLYSAR LIMITÉE
Sarnia Ontario Canada

AR27



ANNUAL REPORT NINETEEN SEVENTY FOUR



For more than 30 years Polysar Limited has been a Canadian-based international company of significant standing in the petrochemical industry. It operates in those segments of the synthetic rubber, latex, chemicals and plastics fields which have been selected for their high growth potential. The company also has an interest in the computer time-sharing industry. With operating subsidiaries and sales and administrative offices in 17 countries, it is also represented by distributors in many others. All outstanding common shares of the company are owned by Canada Development Corporation.

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Polysar Limitée, Secrétariat, Sarnia, Ontario, Canada. N7T 7M2*





	1974	1973
	thousands of dollars	
Net sales and other income	393,884	261,357
Provision for income taxes	5,968	4,604
Net income before extraordinary items	22,821	12,594
dollars per share	11.41	6.30
Extraordinary items	4,750	1,502
Net income	18,071	11,092
dollars per share	9.03	5.55
Return on shareholders' equity, %	12.0	8.2
Dividends	2,500	1,200
Working capital	75,799	77,266
Capital spending	71,455	61,014
Net plant and equipment	184,068	138,293
Payroll and benefits	81,552	61,593
Number of employees at year-end	6,104	6,187

The business environment in 1974 was one of dynamic change. The oil embargo of late 1973 and subsequent quadrupling of oil prices profoundly affected the world petrochemical industry. High demand, general inflation and shortages combined to bring about sharp and rapid increases in costs and prices for petrochemicals. In the second half of 1974, however, the economic downturn adversely affected petrochemical markets, forcing a slowdown of operations across wide sectors of the industry to correct inventory levels and match the reduced level of demand. Against this background, significant progress toward the strategic objectives of the company was nevertheless achieved in the past year, both in financial performance and in committing investments for long-range profitable growth.

Sales and net income for the year advanced markedly, showing respective gains of 51% and 63% over levels of 1973. Sales for the first six months were particularly strong. In the second half, however, a weakness developed in concert

with the general economic decline. As a result, on a current operating basis, a loss of approximately \$6 million was recorded in the fourth quarter when curtailment of production was necessary in several facilities. Despite this disappointing fourth quarter, profit for the full year was at a record level.

Net income of \$18.1 million, after providing \$4.7 million in extraordinary items, represents the third year of improved results following the unsatisfactory performance of 1971. Earnings per share of \$9.03 were recorded compared with \$5.55 in the previous year. The payment of \$2.5 million in dividends, against \$1.2 million in 1973, represents a low pay-out ratio in keeping with our policy of reinvesting funds in the company's major expansion programs.

While net income was favourably influenced by unusual increases in inventory values due to inflation, the required new investment to cover these higher values constituted a significant diversion of cash flow. Further, record earnings were achieved despite two circumstances having a major negative effect. A change from first-in first-out to last-in first-out method of inventory accounting in certain subsidiaries had an adverse effect of \$2.7 million. Profit was also reduced through the absorption of \$13.7 million in non-recurring expenses, losses and write-downs resulting from shutdown of the modular housing plant and decision to withdraw from the systems building business.

Every effort was made to develop a profitable investment in systems building by applying the concept to appropriate segments of the housing field. Unfortunately, a decision to withdraw became necessary because of the depressed state of the home building market and the anticipated drain on financial resources. A small marketing, field construction and property management staff was retained to complete existing projects, ensure fulfillment of obligations to home owners and, if deemed advisable in 1975, to develop projects to dispose of the remaining inventory of modules. Disposal of the plant and other physical assets is being actively pursued.



The present recession in the world economy, which is expected to result in a loss by the company of approximately \$4 million in the first quarter of 1975, obscures for the moment the underlying strength of demand for petrochemical products. Since plant capacity has been slow to expand and important projects have been delayed in several countries, shortages are expected to recur for many petrochemicals when the industry returns to more normal conditions. Revival of any significance is not expected before the latter part of the year and the strength of it is uncertain. Notwithstanding, the long-term future of world petrochemicals is in our view very bright, and in this future Canada is quite clearly in a comparatively advantageous position. Accordingly, the company's plans in support of its strategic objectives are laid against an environment favourable to profitable growth.

These plans contemplate the most rapid growth in the company's history. In the next five years, over \$700 million in capital expenditures is planned in Canada and elsewhere, as a result of which the company will develop an annual turnover in the order of \$1.5 billion. A program of this magnitude will require the company to utilize its considerable external financing capacity, and early in 1975 a move in this direction is being made through a new preferred share issue, the company's first sale of shares to the public. Internal financing through depreciation has become relatively less important in recent times of inflation. Based on historical costs, depreciation is less than half that necessary to replace old plants at current inflated replacement costs. Since income tends to be overstated for this reason, and capital is in effect being taxed, we would strongly encourage government action amending tax laws to permit capital cost allowance to represent more accurately the current cost of replacement. For totally new high capital cost enterprises which do not have immediate earnings, measures conferring an equivalent beneficial effect are needed.

Maintaining a strong position in raw materials is crucial to the company's health and growth objectives. In recognition of this, a Chemicals Division was established late in 1974, to plan and

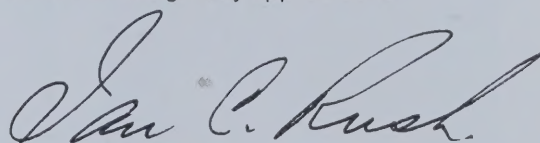
coordinate, on a global basis, the supply of raw materials required by Polysar's rubber, latex and plastics operations, and to develop business opportunities in chemicals beyond these requirements.

The first major thrust in this area is our participation in the Petrosar project which has an estimated total capital requirement of \$430 million. Polysar's majority equity position in Petrosar Limited has been increased to 60% as a result of the sale by Koch Canada Fuels Limited of its interest to the remaining partners, DuPont of Canada Limited, Union Carbide Canada Limited and Polysar. Construction of the plant near Sarnia, Ontario is proceeding satisfactorily. Start-up of the new facilities will be phased, and fuel products are estimated to be available late in 1976 and primary petrochemicals in April, 1977. Petrosar and other downstream facilities are of world-scale size and will give Polysar greater competitiveness and a stronger base for all its businesses.

It is gratifying to report that after earlier losses, Com-Share Limited, Polysar's subsidiary in the computer time-sharing field, achieved a break-even position late in 1974.

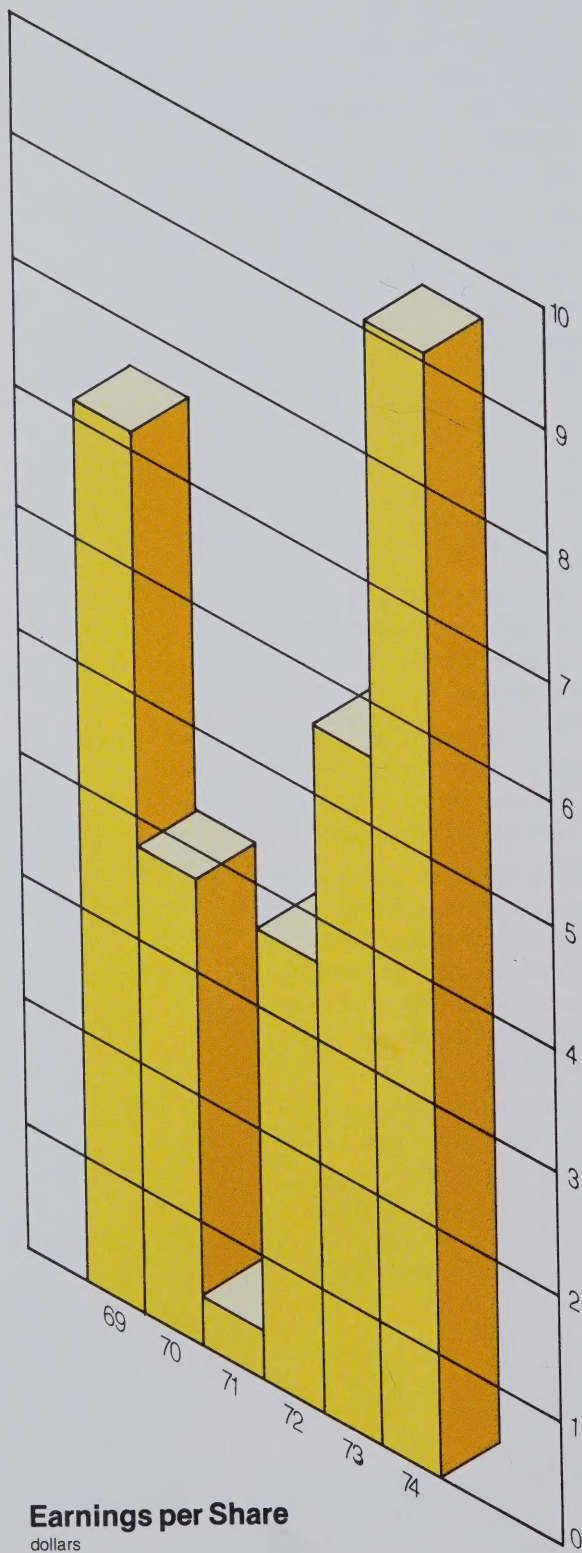
Vacancies on the Board of Directors were filled by the election of William A. Dimma, Dean of the Faculty of Administrative Studies at York University, and A. John Ellis, Chairman of the Board of the Canada Development Corporation and Vice-Chairman and a Director, Bank of Montreal.

A key ingredient for success is a skilled and highly motivated staff. In the current period of change and uncertainty the collective effort of the more than 6,000 people in the Polysar Group is reflected in the improved results of the year under review and is greatly appreciated.



I. C. Rush
President and Chief Executive Officer

Sarnia, Ontario.



Earnings per Share
dollars



Total Assets
millions of dollars

Net Income

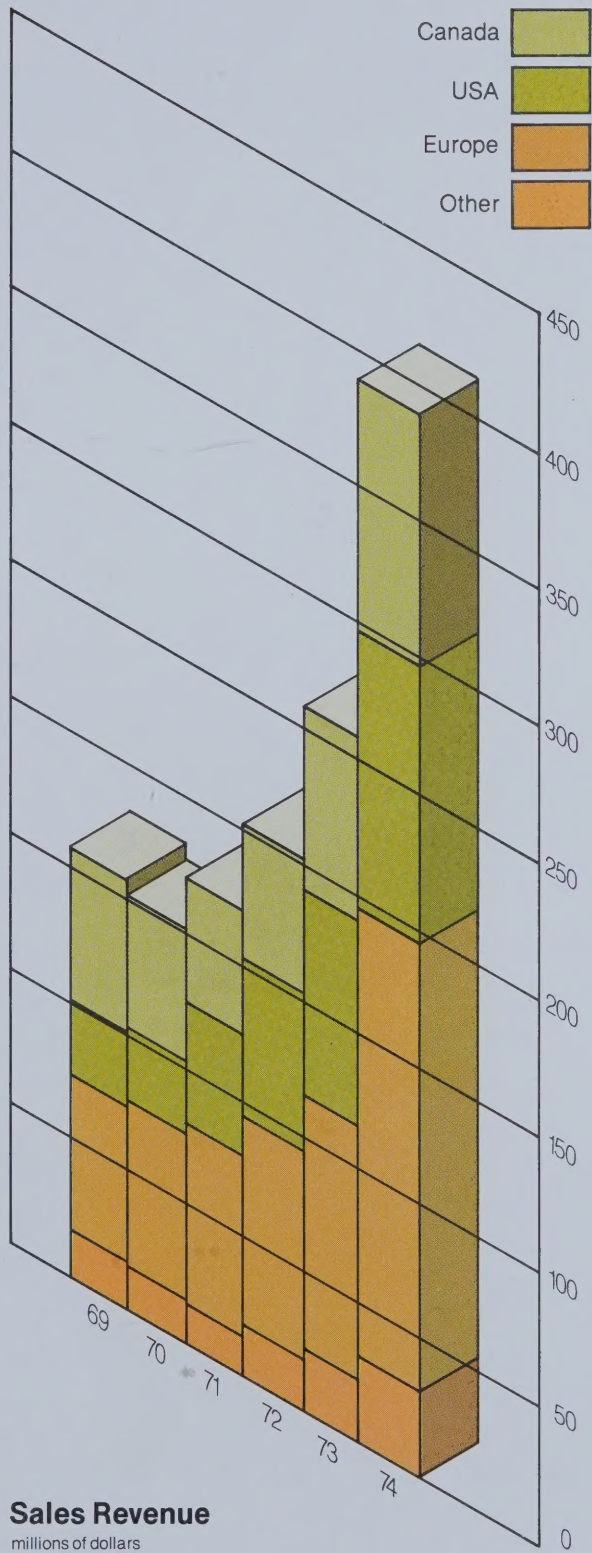
A marked improvement in profitability was achieved in 1974, reflected in a return on shareholders' equity of 12% compared with 8.2% in the previous year. Net income before extraordinary items amounted to \$22.8 million, an increase of 80% over 1973 and equivalent to \$11.41 per share. After giving effect to extraordinary items of \$4.7 million (see Note 5 to the Financial Statements), the net income of \$18.1 million or \$9.03 per share compares with \$11.1 million or \$5.55 per share in 1973.

The business environment moved from conditions of strong demand and supply shortages in the first half to spreading market weakness during the latter part of the year with a resultant loss of approximately \$6 million on a current operating basis in the fourth quarter.

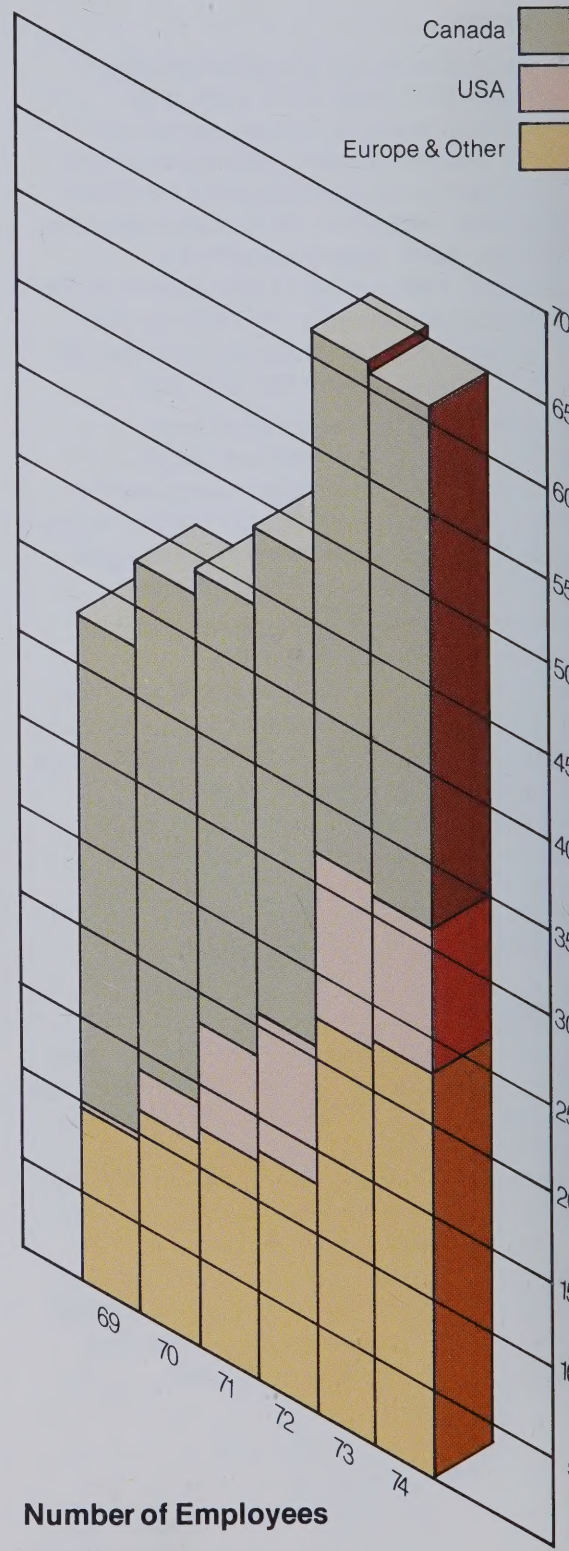
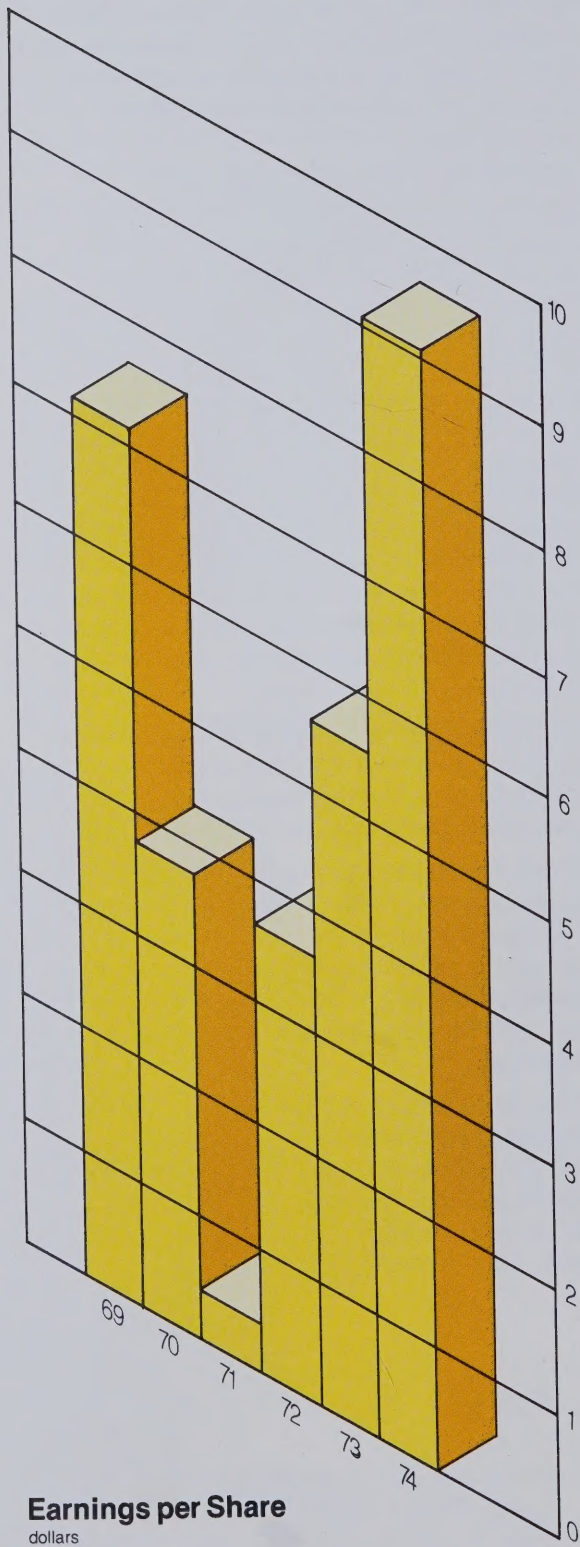
The 1974 results reflect adoption by certain subsidiary companies of the LIFO (last-in-first-out) method of inventory valuation. The effect of this action was to reduce net income by about \$2.7 million (\$1.35 per share). Earnings were also adversely affected by charges associated with the phase-out of the Building Systems Division including plant shutdown expense and the write-down of assets to net realizable value. Losses absorbed in this regard totalled \$13.7 million (\$6.85 per share).

Net Sales

Net sales of all products and services increased by 51 % to \$388.3 million despite a lower physical volume of rubber and latex sales. Higher selling prices and the effect of favourable exchange rates for many European currencies were prime factors in this performance. The improvement was also due in part to the inclusion in 1974 of sales from the Bellaplast group of plastics companies. Sales of the Plastics Division and of the Information Processing group were more than double those of the previous year.



Sales Revenue
millions of dollars



Costs and Expenses

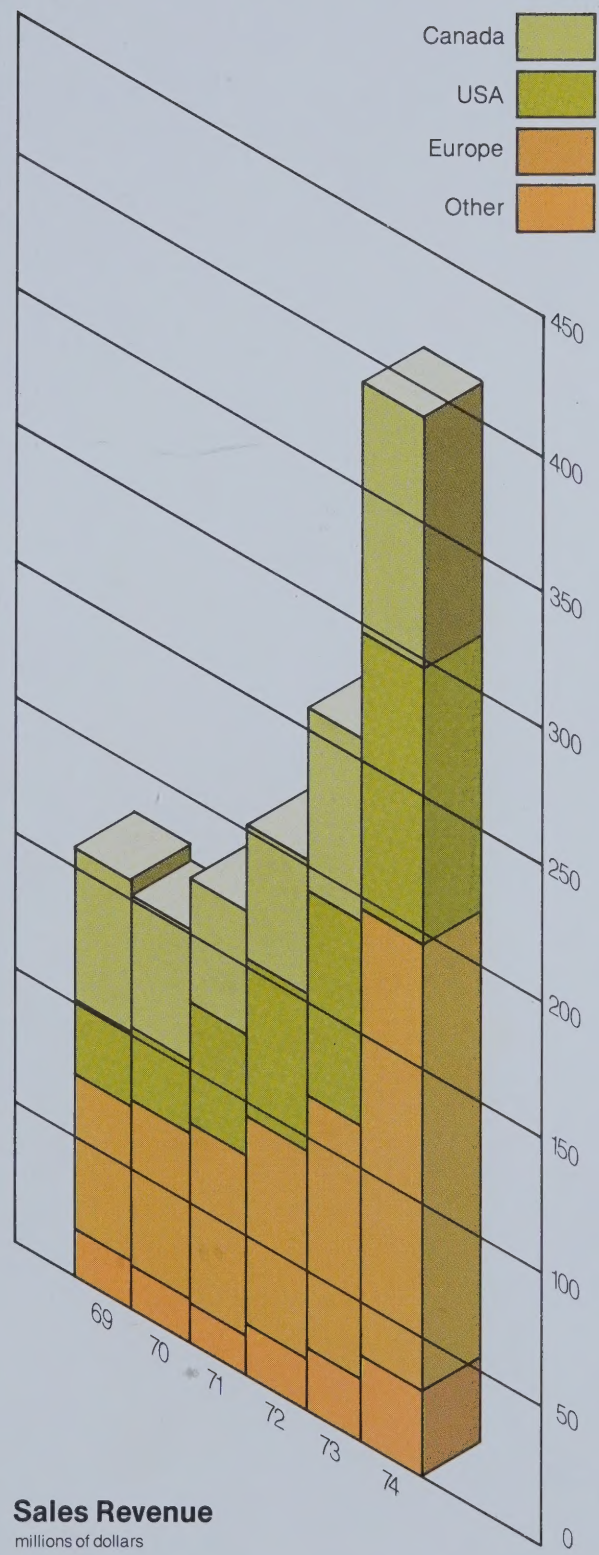
A rapid escalation of both labour and material costs was experienced in the world-wide inflationary environment. Higher costs were generally offset by increased selling prices and by considerable rationalization of product lines and markets. During the latter half of the year, inflationary pressures showed little signs of diminishing despite widespread easing in demand. Increased emphasis was accordingly placed on cost reduction programs and improved efficiencies.

Selling, administration and research expense increased to \$38.5 million but remained at about the same percent of sales. Interest expense, net of interest earned through investment of temporarily surplus funds, increased to \$11.8 million from \$6.3 million in 1973 because of the higher level of debt incurred in financing capital spending and working capital requirements.

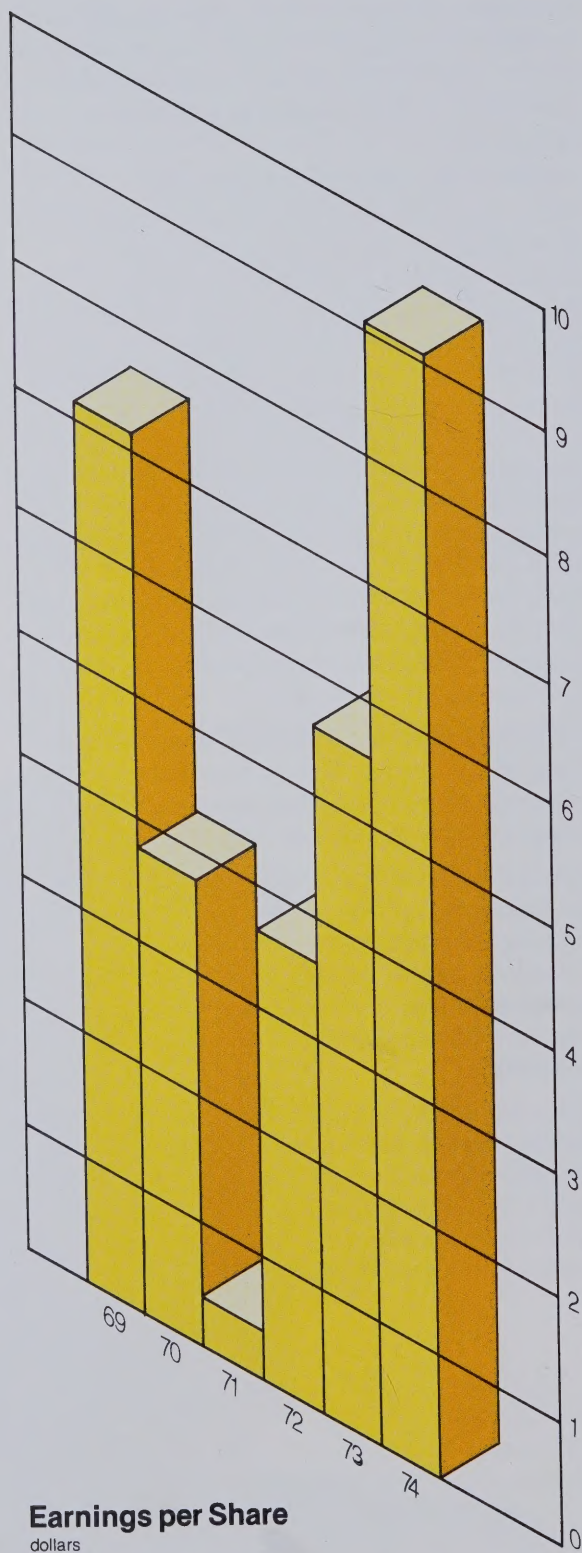
Total employee compensation including benefits amounted to \$81.6 million compared with \$61.6 million in 1973. The pattern of wage and salary increases in response to the inflationary spiral was a major contributor to these higher costs. Full consolidation of the European plastics operations in 1974 was also a factor.

Income Taxes

As a result of higher profits, income taxes in 1974 amounted to \$6.0 million compared with \$4.6 million in the previous year. The Polysar group of companies makes full provision for tax liability in each of the countries in which it carries on business. Thus, the consolidated tax provision is derived from actual profits in a number of locations by applying the applicable tax rate and regulations in each country. In contrast with 1973, when certain prior loss carry-forwards reduced taxes by \$0.6 million, there were no similar reductions in 1974. Nevertheless substantial future tax offsets remain available.



Sales Revenue
millions of dollars



Earnings per Share
dollars



Cash Generation
millions of dollars

Petrosar

Petrosar Limited was incorporated in April 1974. Polysar has subscribed for 60% of an aggregate of \$50 million of shares of Petrosar and paid \$8.1 million in 1974, and agreed to purchase \$11.4 million of subordinated debentures. The accounts of Petrosar Limited are fully consolidated as a subsidiary of Polysar Limited (see Notes 2, 3 and 6 to the Financial Statements).

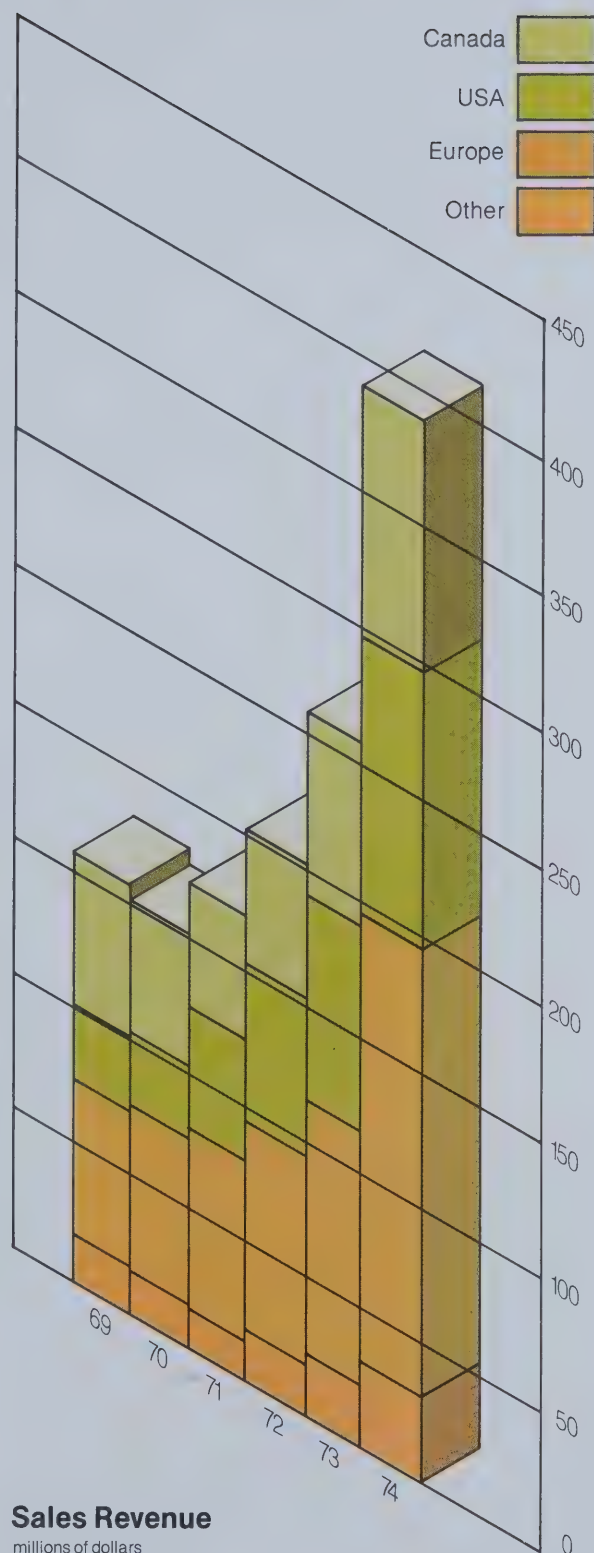
Petrosar has arranged with a consortium of Canadian chartered banks for a term loan of \$265 million to meet construction commitments, of which \$28 million was drawn down in 1974, and for a demand operating loan of \$35 million. Polysar Limited has guaranteed 45% of the term loan obligation and the minority shareholders of Petrosar Limited have guaranteed 55%. The term loan is payable during the years 1979 to 1988 as set forth in Note 3 to the Financial Statements. In the event of any deficiency of funds required by Petrosar to complete its plant construction and meet its debt obligations, Polysar is obliged, under certain defined circumstances, to provide a maximum of 48% of any such cash deficiency.

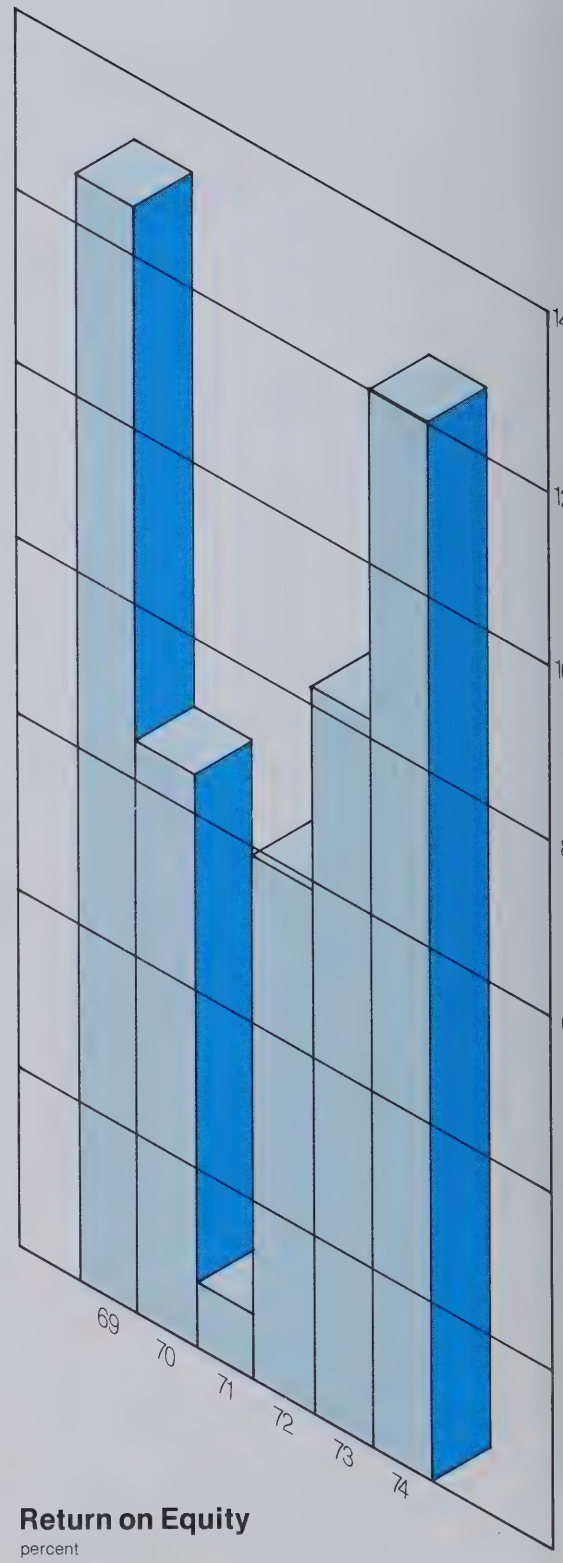
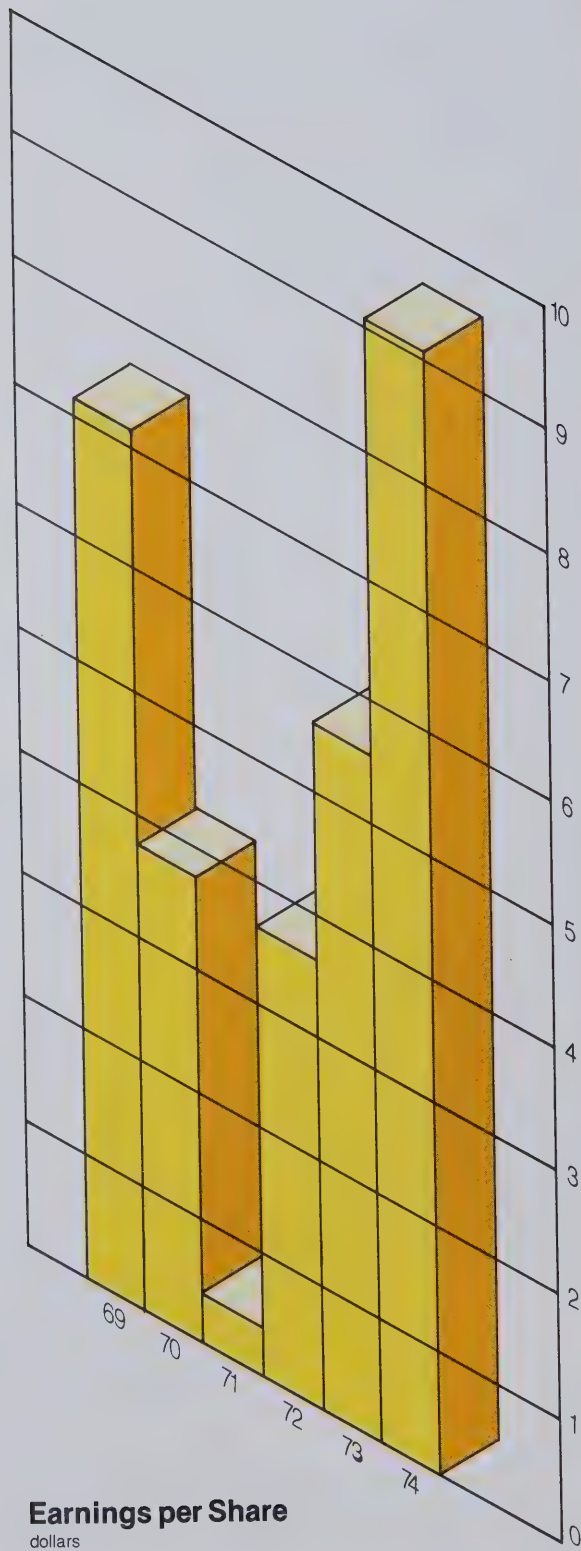
Source and Use of Funds

Working capital at December 31, 1974 amounted to \$75.8 million, a decrease of \$1.5 million during the year, and the current ratio was 1.5 to 1.

Funds generated from operations totalled \$45.6 million compared with \$30.5 million in 1973 chiefly resulting from the higher level of net income. These funds, together with new long-term debt of \$28.1 million, a contribution from minority shareholders of \$6.1 million and \$9.0 million from other sources were used to meet capital spending of \$71.5 million, the retirement of \$13.6 million of long-term debt, a dividend payment of \$2.5 million and other requirements of \$1.2 million.

Year-end inventory levels were considerably higher due to significant increases in per unit costs, higher physical volumes and correction of abnormally low levels at the beginning of the year. This resulted in a decline in short-term investments and an increase in short-term loans.





All assets of the Building Systems Division net of mortgages and totalling \$21.2 million were classified as current at December 31, 1974 since their disposal is now proceeding (Note 1 (c) to the Financial Statements).

Capital Spending

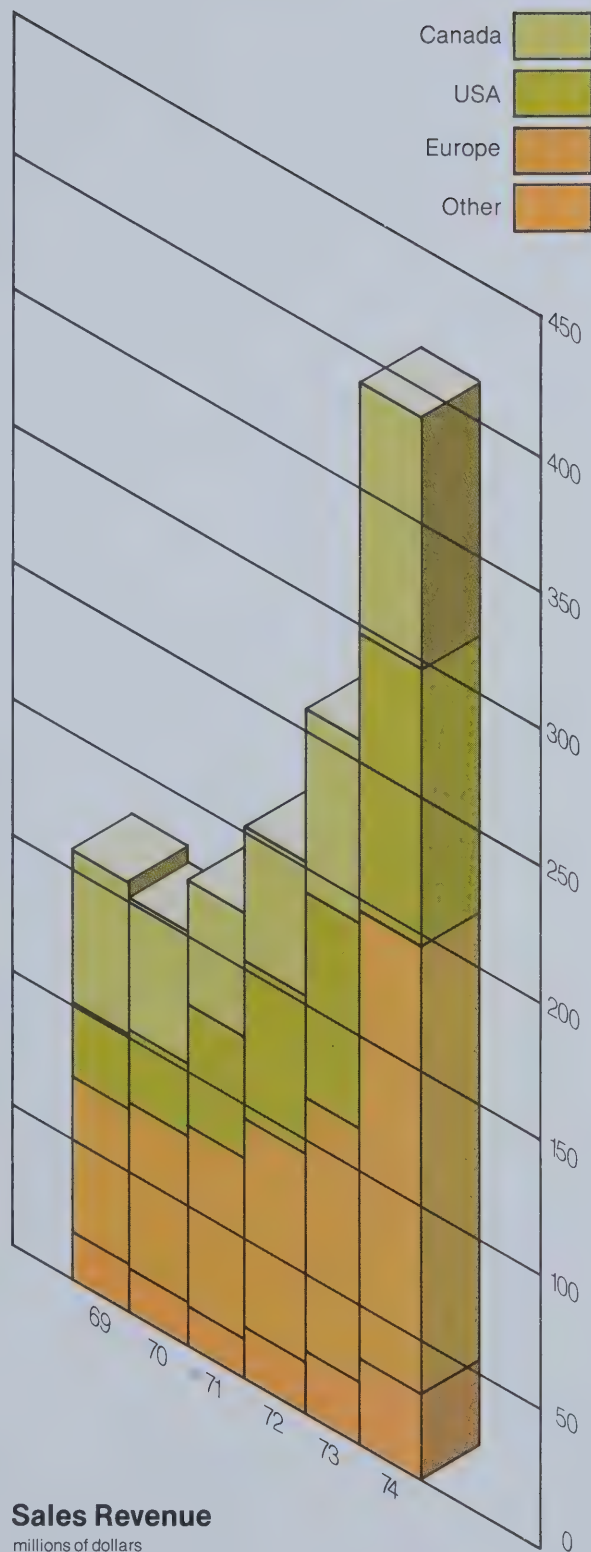
Net additions to property, plant, equipment and goodwill through direct capital expenditures amounted to \$71.5 million in 1974. This includes \$51.1 million associated with the Petrosar project. Of the remainder about half was for increased production capacity in the rubber, latex and plastics facilities and half for plant improvements and environmental protection programs. Major projects included: expansion of butyl facilities in Sarnia and Antwerp, additional latex capacity in both Strasbourg and Chattanooga, expansion of the existing styrene plant in Sarnia, and engineering and equipment procurement for the proposed world-scale styrene plant.

The company plans to spend for expansion and improvement of production facilities about \$33 million in 1975 and \$69 million in 1976 of which approximately 55% will be for rubber, 10% for latex and 17% for plastics. In addition, planned expenditures for the Petrosar project in 1975, 1976 and 1977 are approximately \$212 million, \$111 million, and \$23 million respectively. During the same period expenditures for the proposed new styrene plant would total approximately \$88 million if this project proceeds.

Foreign Exchange Factors

Financial statements of subsidiary companies located outside of Canada are translated into Canadian dollars following generally accepted accounting principles of exchange translation (see Note 1 (i)). The combination of world currency realignments and floating exchange rates significantly affects financial results of the Polysar group.

The strength of the Canadian dollar against the U.S. dollar throughout most of 1974 had an unfavourable impact on Polysar's income, although, as earlier noted, a net benefit resulted from the strength of European currencies.



Polysar Limited and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME AND RETAINED INCOME

Year ended December 31, 1974 (with comparative figures for 1973)

	1974	1973
	thousands of dollars	
INCOME		
Sales of products and services	\$388,256	\$257,126
Other (Note 9)	5,628	4,231
	<u>393,884</u>	<u>261,357</u>
EXPENSES		
Cost of sales	310,332	212,227
Selling, administration and research	38,477	25,205
Interest on long-term debt	9,878	4,698
Interest on short-term debt	4,427	2,352
Currency translation loss (gain)	1,936	(377)
	<u>365,050</u>	<u>244,105</u>
Net income before income taxes, extraordinary items and minority interest	28,834	17,252
Income taxes (Note 4)	5,968	4,604
Minority interest	45	54
	<u>6,013</u>	<u>4,658</u>
Net income before extraordinary items	22,821	12,594
Extraordinary items (Note 5)	4,750	1,502
NET INCOME FOR THE YEAR	<u>18,071</u>	<u>11,092</u>
RETAINED INCOME AT BEGINNING OF YEAR	<u>105,044</u>	<u>95,152</u>
	123,115	106,244
Dividend	2,500	1,200
RETAINED INCOME AT END OF YEAR	<u>\$120,615</u>	<u>\$105,044</u>
INCOME PER SHARE		
Before extraordinary items	\$11.41	\$6.30
Extraordinary items	(2.38)	(.75)
	<u>\$ 9.03</u>	<u>\$5.55</u>

The accompanying notes are an integral part of the consolidated financial statements.

Polysar Limited and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1974 (with comparative figures for 1973)

	1974	1973
	thousands of dollars	
SOURCE OF FUNDS		
Current operations		
Income before extraordinary items	\$ 22,821	\$ 12,594
Items not requiring a current outlay of funds		
Depreciation	19,536	15,883
Amortization	2,054	1,259
Deferred income taxes	1,441	742
Other	(203)	54
Funds from operations	45,649	30,532
Proceeds from issue of long-term debt	28,082	71,791
Proceeds from disposal of property, plant and equipment	501	988
Reclassification of building systems assets	8,440	—
Contribution of minority shareholders	6,092	—
	<u>88,764</u>	<u>103,311</u>
APPLICATION OF FUNDS		
Purchase of property, plant and equipment	71,200	45,120
Real estate investments	—	6,052
Other investments	—	2,954
Long-term receivables	741	3,134
Reduction of long-term debt	13,601	7,233
Goodwill	255	12,683
Dividends	2,500	1,200
Other	534	2,780
Costs attendant to phase out building systems division	1,400	—
	<u>90,231</u>	<u>81,156</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(1,467)	22,155
WORKING CAPITAL AT BEGINNING OF YEAR	77,266	55,111
WORKING CAPITAL AT END OF YEAR	\$ 75,799	\$ 77,266

The accompanying notes are an integral part of the consolidated financial statements.

Polysar Limited and subsidiary companies

CONSOLIDATED BALANCE SHEET

as at December 31, 1974 (with comparative figures for 1973)

Assets

1974

1973

thousands of dollars

CURRENT

Cash	\$ 1,636	\$ 3,706
Short-term investments, at cost which approximates market	13,134	26,734
Accounts receivable less allowance for doubtful accounts	85,590	85,665
Inventories (Note 1b)	103,328	47,178
Real estate investments (Note 1c)	21,220	—
Prepaid expenses	4,385	1,877
TOTAL CURRENT ASSETS	229,293	165,160
 LONG-TERM RECEIVABLES	3,875	3,134
REAL ESTATE INVESTMENTS	—	6,052
INVESTMENTS IN OTHER COMPANIES (Note 1d)	8,567	8,319
PROPERTY, PLANT & EQUIPMENT (Note 1e)	184,068	138,293
 OTHER, at cost less amortization		
Deferred charges (Note 1f)	3,705	4,982
Patents and technology (Note 1g)	2,317	2,902
Goodwill (Note 1h)	12,856	12,609
TOTAL ASSETS	\$444,681	\$341,451

The accompanying notes are an integral part of the consolidated financial statements.

Approved on behalf of the Board

Ian C. Rush Director

David C.H. Stanley Director

Liabilities**CURRENT**

thousands of dollars

	1974	1973
Short-term loans	\$ 73,528	\$ 36,202
Accounts payable and accrued liabilities	61,792	39,035
Income and other taxes	3,743	3,873
Long-term debt due within one year	14,431	8,784
TOTAL CURRENT LIABILITIES	153,494	87,894
LONG-TERM DEBT (Note 3)		
Guaranteed by minority shareholders	15,445	—
Other	111,729	112,693
DEFERRED INCOME TAXES	6,519	5,078
MINORITY INTEREST IN SUBSIDIARIES	6,879	742
TOTAL LIABILITIES	294,066	206,407

Shareholders' Equity**CAPITAL STOCK**

Authorized — 3,000,000 common shares of no par value		
Issued — 2,000,000 common shares fully paid	30,000	30,000
RETAINED INCOME	120,615	105,044
TOTAL SHAREHOLDERS' EQUITY	150,615	135,044
	\$444,681	\$341,451

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Polysar Limited and subsidiary companies as at December 31, 1974 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their

operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change, with which we concur, in the method of valuation of certain inventories as referred to in Note 1(b) to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Toronto, Canada
February 14, 1975

Polysar Limited and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1974

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated statements reflect the financial position, the results of operations and the changes in financial position of Polysar Limited and its subsidiary companies. All intercompany balances and transactions have been eliminated on consolidation.

(b) Inventories

In previous years all inventories were stated at the lower of cost and net realizable value on the first-in-first-out (FIFO) method. In 1974 certain subsidiaries changed their valuation basis to cost applied on the last-in-first-out (LIFO) method. Had the FIFO method been used in the current year by such subsidiaries, inventories would have been \$3.5 million higher than reported at December 31, 1974. The effect of this change in 1974 was to reduce net income by approximately \$2.7 million (\$1.35 per share). Pro forma effects of retroactive application of LIFO are not determinable.

Inventories consist of:	1974	1973
	thousands of dollars	
Raw Materials	\$ 29,711	\$ 15,939
Finished Products	60,067	25,886
Other	13,550	5,353
	<u>\$103,328</u>	<u>\$ 47,178</u>

(c) Real Estate Investments

Real estate investments consist of all the assets of the building systems division of Polysar Limited net of related mortgages of \$4.1 million at December 31, 1974. In 1974 the company decided that this division should be phased out and as the disposal of its net assets is currently being actively pursued, they have been classified as a current asset.

The land included in these investments is valued at cost including related carrying charges while the apartment buildings, townhouses, modular housing units and manufacturing facilities are stated at estimated net realizable value, which is lower than cost.

(d) Investment in Other Companies

Investments in other companies where Polysar

Limited has acquired less than 50% interest have been accounted for on the equity method.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at depreciated cost. The cost of the plant which is under construction by a subsidiary (Note 2) amounts to \$51 million and includes commitment fees and interest charges on related long-term debt, less interest earnings on short-term investments.

The net carrying value of property, plant and equipment is as follows:

	1974	1973
	thousands of dollars	
Cost	\$402,043	\$339,411
Accumulated Depreciation	<u>217,975</u>	<u>201,118</u>
	<u>\$184,068</u>	<u>\$138,293</u>

Depreciation is based on estimated useful life, calculated on the straight-line or diminishing balance method as considered most appropriate for the property, plant and equipment included in the consolidation.

Certain office and production facilities are held under long-term leases, which include various purchase options. The cost of these assets, amounting to approximately \$26.8 million at December 31, 1974, (\$26.0 million at December 31, 1973) and the related long-term debt have been capitalized.

(f) Deferred Charges

Pre-production expenses incurred in connection with major new production facilities are being amortized on the straight-line method over a period generally not exceeding five years from commencement of production. However, pre-production expenses being incurred by a subsidiary (Note 2) are expected to be amortized over a ten year period. Other deferred charges are absorbed against income in the periods to which they are applicable.

(g) Patents and Technology

Patents and technology are amortized on the straight-line method over their estimated economic useful life, generally not in excess of five years.

(h) Goodwill

In 1974 the company adopted the policy of not amortizing goodwill arising on acquisitions prior to 1974 provided its value had not been impaired. Retroactive effect was not given to this policy in view of the immateriality of the amount previously amortized. Goodwill acquired subsequent to 1973 is being amortized over the period deemed to be benefited by the expenditures but not to exceed twenty years.

(i) Foreign Exchange

Consolidation of non-Canadian current assets and liabilities has been made at rates of exchange in effect at the end of the year ; all other assets together with related depreciation, and liabilities at the rates prevailing when the assets were acquired or the liabilities incurred ; and income and expense, except depreciation, at rates in effect during the year.

Profits and losses resulting from revaluation of net working capital to reflect changes in currency values are included in the statement of income and retained income for the year.

2. Petrosar Limited

As an incorporating shareholder Polysar Limited subscribed for 60 percent of an aggregate of \$50 million of shares of Petrosar Limited (Petrosar) of which \$8.1 million was paid in 1974. Petrosar was incorporated to build and operate a world scale crude oil topping and naphtha cracking complex in the vicinity of Sarnia, Ontario. It is presently estimated that the cost of the project including financing during construction, start-up and working capital requirements will approximate \$430 million.

3. Long-term Debt

3. Long-term Debt	1974	1973
	thousands of dollars	
LOANS REPAYABLE		
In French francs (Fr. 16,500,000) during the years 1975 to 1980 bearing interest at rates varying from 7.25% to 9.25%	\$ 3,409	\$ 5,199
In Belgian francs (Fr. 150,000,000) during the years 1975 to 1977 bearing interest at 6.5% and secured by a mortgage on certain land and buildings	3,535	4,450
In Belgian francs (Fr. 405,000,000) under lease arrangements during the years 1975 to 1992 bearing interest at 7.88% and 9.86%	10,735	12,524
In Swiss francs (Fr. 25,000,000) during the years 1975 and 1976 bearing interest at a variable rate with a minimum of 6.785%	8,009	6,244
In German marks (DM 56,411,000) during the years 1975 to 2004 bearing interest at rates varying from 2.5% to 12.25%	20,959	21,494

In United States dollars (\$10,033,000) under lease arrangements during the years 1975 to 1985 bearing interest at 9.75%

1974	1973
thousands of dollars	
\$ 10,229	\$ 10,701

In United States dollars (\$5,335,000) during the years 1975 to 1989 bearing interest at rates varying from 5% to 15% , a portion of which is secured by mortgages on certain fixed assets

5,383	5,479
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In United States dollars (\$23,100,000) during the years 1979 to 1988 bearing interest at rates varying from 120% to 122½ % of the average prime rate of specified New York banks until 1985 and thereafter at rates to be agreed upon (\$12,558,000 of this loan is guaranteed by minority shareholders)

22,832	—
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In Canadian dollars during the years 1979 to 1988 bearing interest at .75% above the Canadian prime rate until 1985 and thereafter at rates to be agreed upon (\$2,887,000 of this loan is guaranteed by minority shareholders)

5,250	—
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DEBENTURES

Serial Debentures Series A bearing interest at 7.5% repaid on November 1, 1974

—	1,000
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Sinking Fund Debentures Series A bearing interest at 7.5% maturing November 1, 1987

13,000	13,000
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Sinking Fund Debentures Series B bearing interest at 9% maturing November 15, 1993

35,000	35,000
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OTHER

3,264	6,386
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<u>141,605</u>	<u>121,477</u>
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Less portion of long-term debt :

Due within one year included in current liabilities

14,431	8,784
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Guaranteed by minority shareholders

15,445	—
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<u>29,876</u>	<u>8,784</u>
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<u>\$111,729</u>	<u>\$112,693</u>
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Sinking fund requirements and the portion of long-term debt due in each of the next five years are as follows:

1975 — \$14.4 million
 1976 — \$12.0 million
 1977 — \$21.1 million
 1978 — \$ 6.0 million
 1979 — \$27.2 million

In the event that exchange rates prevailing at December 31, 1974 were to prevail during the years 1975 to 2004 the amount of long-term debt less long-term receivables would increase by approximately \$3.9 million.

Petrosar has arranged a term loan of \$265 million, \$28 million of which is included above, and a demand operating loan from a consortium of Canadian banks. Quarterly repayments are expected to commence no later than June 1, 1979. While these bank loans are outstanding, dividends may not be declared by Petrosar until specified conditions have been met.

4. Income Taxes

Current income taxes on a consolidated basis are computed on the operating results of many domestic and foreign subsidiaries, some of which sustained operating losses while others earned income subject to varying rates of tax. Polysar Limited and its subsidiaries do not give recognition to the potential future tax benefit represented by current losses. Prior loss carry-forwards effectively reduced taxes which would otherwise have been payable by Polysar Limited and its subsidiaries in 1973 by \$550,000 (1974-nil). On a consolidated basis these recurring tax recoveries are not considered to be extraordinary in nature, and are accordingly reflected as reductions of current income taxes when realized. Substantial future tax offsets are available from domestic and foreign operations.

5. Extraordinary Items, Net

	1974	1973
	thousands of dollars (gain) loss	
Sale of investment and other assets	\$ (150)	\$ 68
Building systems division:		
Write down to estimated net realizable value of manufacturing facilities and provision for costs attendant to the phase out of this division (Note 1c)	4,900	—
Other	—	1,434
	<u>\$ 4,750</u>	<u>\$ 1,502</u>

In addition to the extraordinary charges in 1974 and 1973 related to the building systems division, operational losses included in income before extraordinary items approximate \$8.8 million and \$5.3 million respectively.

6. Commitments

a) At December 31, 1974 Polysar Limited and its subsidiaries excluding Petrosar (Note 2), were committed to spend approximately \$19.7 million for acquisition of capital assets.

b) Polysar Limited has agreed to purchase from Petrosar a further 1,314,000 shares for \$21.9 million and subordinated debentures of \$11.4 million respectively. These shares and debentures will be issued as required to maintain the ratio of bank loans to subordinated debt and shareholders' equity provided for in Petrosar's bank loan agreement.

The shareholders of Petrosar have undertaken to make additional funds available to that company to the extent of the excess of the cost of its facilities over the aggregate of their investment in Petrosar and the loans of the consortium of Canadian banks (Note 3) which loans are guaranteed by the shareholders.

c) A subsidiary company has entered into an agreement to advance approximately \$6 million to a supplier of raw materials. These advances will be repaid over a period not to exceed ten years. At December 31, 1974 these advances totalled \$0.7 million and are included in long-term receivables.

7. Contingencies

Polysar Limited is or may become a defendant with others in several legal actions claiming an aggregate of \$6 million in respect of product liability. It is management's opinion that these claims will not be sustained.

8. Pension Plans

The unfunded past service liability of the pension plans relating to employees of Polysar Limited and its subsidiaries is being funded over the next sixteen years with annual charges against operations of approximately \$437,000.

9. Supplementary Information

Other income includes interest, royalties, proceeds from the sale of technology, income from participation in government programs, and equity share of income from investments in other companies. The accounts for 1974 include remuneration of 11 directors and 14 officers of Polysar Limited of \$47,000 and \$629,800 respectively. Two officers of the company are also directors.

Polysar Limited and subsidiary companies

Ten Year Review

in millions of dollars except where noted

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Operating Results										
Net sales and other income	393.9	261.4	205.6	174.9	157.2	160.5	144.3	128.0	127.5	117.5
Income before taxes and extraordinary items	28.8	17.2	11.7	1.1	9.6	19.9	11.3	6.4	13.5	12.9
Income taxes	6.0	4.6	3.0	(0.5)	0.6	5.5	3.0	1.5	2.3	2.6
Extraordinary items	4.7	1.5	1.3	0.8	1.5	—	0.8	—	—	—
Net Income	18.1	11.1	7.4	0.8	7.6	14.3	7.5	4.9	11.2	10.3
Performance										
Earnings per share	\$ 9.03	5.55	3.69	0.40	3.79	7.16	3.74	2.43	5.61	5.15
Return on sales	% 4.7	4.2	3.6	0.5	4.8	8.9	5.2	3.8	8.8	8.8
Return on shareholders' equity	% 12.0	8.2	5.9	0.7	6.4	12.6	7.1	4.7	11.2	10.7
Income related data										
Depreciation provided	19.5	15.9	15.0	13.8	13.1	13.6	13.2	10.3	8.7	8.8
Cash generation	45.6	30.5	25.7	14.5	19.6	27.1	21.5	18.1	23.0	21.5
Capital spending	71.5	61.0	20.0	29.8	29.3	9.1	12.1	21.9	26.3	8.9
Dividends	2.5	1.2	0.8	0.5	3.0	6.0	3.0	3.0	4.5	4.5
per share	\$ 1.25	0.60	0.38	0.25	1.50	3.00	1.50	1.50	2.25	2.25
Financial position										
Working capital	75.8	77.3	55.1	54.8	57.0	70.2	59.4	52.8	42.3	52.0
Investments	8.6	8.3	5.8	10.6	11.6	6.4	6.0	5.6	6.5	4.3
Net fixed assets	184.1	138.3	109.7	105.6	90.5	79.5	84.0	86.8	75.4	60.2
Other assets	22.8	29.7	7.5	5.0	4.4	4.1	5.6	6.8	5.8	4.8
Financed by										
Capital stock	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Retained income	120.6	105.0	95.2	88.5	88.2	83.6	75.3	72.2	70.3	66.2
Long-term debt	127.2	112.7	48.1	51.6	37.6	38.3	40.1	40.9	22.0	20.1
Other	13.4	5.8	4.8	5.9	7.7	8.3	9.5	8.9	7.8	4.9
Other data										
Salaries, wages and benefits	81.6	61.6	51.0	45.1	39.5	34.3	33.2	32.5	29.6	25.6
Number of employees at year-end	6,104	6,187	4,856	4,414	4,273	3,799	3,722	3,976	3,911	3,605
Rubber and resin production, millions of pounds	1,034	1,135	985	856	801	732	685	617	593	555

Rubber

Earnings from total rubber operations were sustained at close to the 1973 level despite a decline in physical volume of sales. Selling prices were increased in response to escalating raw material and other costs, and in addition, some rationalization of product types and markets was undertaken. These actions assisted in the maintenance or improvement of profit margins.

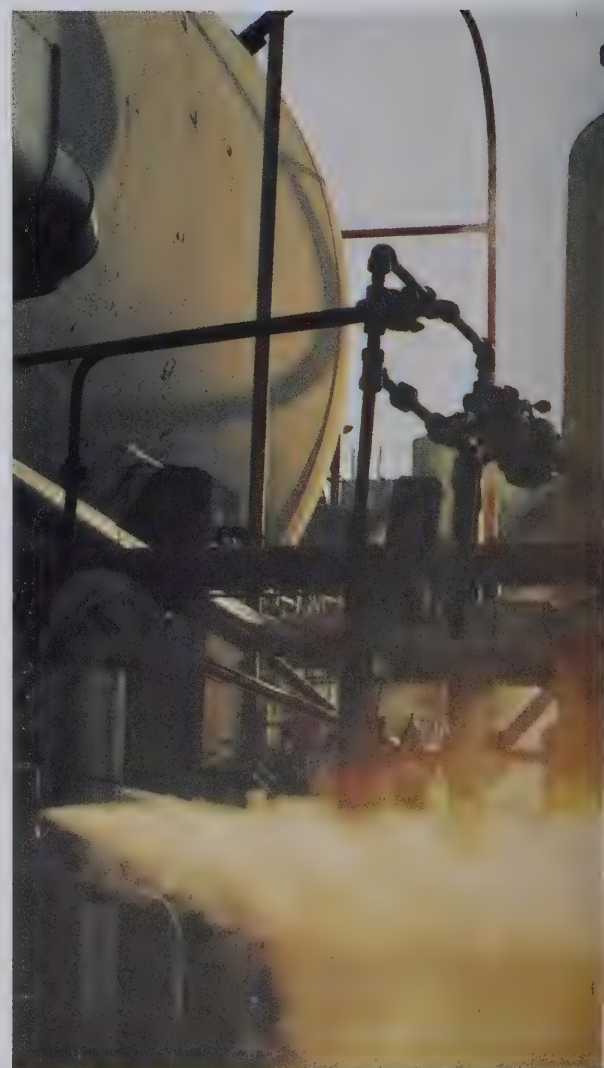
In North America, production and sales during the first half were restricted by shortages of raw materials. As the year progressed, the spreading strike situation in the Canadian tire industry, which lasted almost to year-end, became an important additional factor. A recovery in general purpose SBR sales to the Canadian tire rubber market is expected in 1975.

Sales in Europe and other areas were strong during the first half though somewhat affected by raw material shortages. The general business slowdown which followed had a depressing effect on most product lines.

During the recent period of styrene monomer shortage, a leading position was attained in the world market for self-reinforcing elastomers. New end-use applications for these rubbers are being developed outside the footwear field as part of the increased emphasis on specialty synthetic rubbers adapted to specific customer requirements. This is part of a program to reduce dependence on commodity type general purpose rubbers for the tire industry.

As a major world supplier of oil-resistant rubbers, Polysar increased further its market position during 1974. Development work on nitrile rubbers for oil-well specialty uses, powdered products for modification of plastics, carboxylated materials for high abrasion uses, and new products for high temperature applications has broadened the product range.

Butyl rubber profitability in 1974 was adversely affected by slower demand and escalating costs which have not yet been fully recovered through adjusted selling prices. Emphasis on cost reduction and development of halobutyl products are being pursued to strengthen Polysar's



performance as the world's second largest supplier of butyl rubbers.

Sales of polybutadiene rubbers were aided by the strong demand in the United States for high impact polystyrene. On the other hand, sales to the Canadian tire market were affected by industry strikes and raw material shortage. A doubling of plant capacity in Sarnia to 140 million pounds per year is underway and completion is expected early in 1976.

In custom-compounding, Polysar's broad sales coverage, its reputation as a reliable supplier and



Additional capacity has been installed at the high solids latex plant near Strasbourg, France and at the butyl plant in Antwerp, Belgium. (inset)

its recognized technical skills have been used successfully to take advantage of major sales opportunities. Producing plants in Barberton, Ohio and Lindsay, Ontario are well positioned to respond to the greater use of custom mixing by companies unable or unwilling to invest in expensive mixing equipment. The Ontario plant also manufactures inner tubes for an increasing section of the Canadian market.

Technical development continues to play a vital role in the emphasis directed to the specialty rubber market. Development of rubbers

specifically for use with plastics, new applications and grades of butyl and halobutyls, and process developments to effect substantial energy savings are examples of major programs designed to meet customer needs and expected growth.

Latex

In the past five years, an approximate quadrupling of latex sales has been achieved. For much of 1974, sales were marked by very strong demand in all areas. Concurrently, raw material

shortages at all plant locations as well as production interruptions of the Strasbourg operations restricted output to a level below that of 1973.

Performance for the year again improved significantly over the previous year although some softening occurred late in 1974 in response to recession in the U.S. and European economies.

Polysar is the world's largest producer of high-solids SBR latices and has production facilities in most key market areas. Growth in demand and an increased share of the carpet foam latex market in the United States and Europe are foreseen, while, in Canada, Polysar expects to continue as the major supplier.

Several new products for the other textile and paper latex fields have been introduced following the identification of considerable growth potential in these areas. Vigorous marketing efforts, supported by development and technical service staff and facilities in both Europe and North America, will continue to assist the progress of the company in the latex field.

Plastics

In 1969, the company embarked on a program to attain a strong position in the plastics industry through expansion, acquisition and the application of technology. In Canada, the United States and Europe, Polysar now manufactures polystyrene resins, a broad range of packaging products, and moulded components for the furniture industry.

Over the past five years, an eightfold increase in Plastics Division sales has been achieved. In 1974, sales revenue was double that of the previous year, achieving over 20% of the corporate total. All lines, but particularly resins and packaging, contributed to this performance despite the softening of demand and downward pressure on prices experienced by some products in the second half of 1974. These results were especially gratifying in view of the shortages and rapidly increasing costs of raw materials, the effect of price controls in the United States during



the early months of 1974, and the recessionary environment which marked the latter part of the year.

In polystyrene resins a decided shift toward easing in the market has become evident. Marketing activities are being strengthened, as are technical development efforts aimed at new processes and products to stimulate a broader market need.

New products, particularly for food packaging needs, are expected to provide growth and market leadership. New markets and product innovations should also compensate for higher



The plastics converting plant in Alt / Mosel, one of several facilities of the Bellaplast Group in the Federal Republic of Germany.

High speed precision thermoforming equipment designed and manufactured by the Bellaplast Group.(inset)

raw material, labour and manufacturing costs in the Bellaplast operations in Europe.

Chemicals

The Chemicals Division, created in 1974, is concerned with the utilization of olefins, aromatics and their derivatives in support of Polysar's activities in polymerization and polymer fabrication. It also has the responsibility to seek out and develop new investment opportunities in the chemicals field.

Two major projects have been assigned to the Chemicals Division. Under construction is the

plant of Petrosar Limited, a \$430 million investment in which Polysar holds a 60% equity interest. The second is a new styrene facility planned for Sarnia.

Petrosar Limited, a world-scale facility which will utilize 170,000 barrels per day of crude oil, will produce one billion pounds of ethylene per annum and large volumes of propylene, aromatics, butadiene and isobutylene for the petrochemical industry in Sarnia. It will also produce fuel products for the Ontario market equivalent to about 70% of the crude oil processed in its operations.

The crude oil section is scheduled to be in operation by late 1976 and the primary petrochemicals unit by April, 1977.

The majority of Petrosar's chemical products have been contracted to the shareholder companies. Marketing plans are being completed for the remainder and for the fuel products — gasoline, fuel oils and synthetic natural gas.

During most of 1974, styrene was in scarce supply. Its price reflected the rapidly escalating costs of benzene and ethylene as well as a significant premium due to scarcity. This situation enabled the styrene plant in Sarnia to develop an attractive return on investment.

To provide an economic and reliable source for Polysar's expanding styrene requirements and to achieve a prominent position as a merchant supplier in Canada, plans for a world-scale plant were announced early in 1974. Engineering and equipment procurement are proceeding on a schedule which would allow plant completion to coincide with the availability of feedstock from Petrosar in early 1977. The decision to proceed with the project or to delay the project will be made in the late spring of 1975.

Information Processing

Significant progress was achieved in 1974 by Com-Share Limited, Polysar's subsidiary which operates internationally in the computer time-sharing field. Led by very strong growth in the U.K., sales more than doubled those of 1973. From a loss position due to substantial start-up and fixed operating costs relative to volume of sales, consolidated operations achieved a break-even point late in 1974.

New operations were established in the Netherlands and Belgium. In Canada, coast-to-coast service will become available and facilities in other European countries will be opened during 1975, thus enabling clients to gain access to common data bases from either side of the Atlantic.





A model of the Petrosar plant built by the Lummus Company of Canada to facilitate detailed engineering and construction. (scale 3/8in.=1ft.).

Construction at the Petrosar plant site in Moore Township near Sarnia, Ontario. (inset)

CANADA

POLYSAR LIMITED
Sarnia, Ontario, (Corporate Headquarters)
KAYSON PLASTICS DIVISION
Cambridge, Ontario
COM-SHARE LIMITED
Rexdale, Ontario
GENERAL PLASTICS COMPANY LIMITED
Cookshire, Quebec
PETROSAR LIMITED
Sarnia, Ontario
TRENT RUBBER SERVICES LIMITED
Lindsay, Ontario

UNITED STATES

MAMMOTH PLASTICS INC.
Wellsburg, West Virginia
POLYSAR INCORPORATED
Akron, Ohio
POLYSAR PLASTICS INC.
Stamford, Connecticut
POLYTHERM DIVISION
Middletown, New York
DECORATIVE COMPONENTS DIVISION
Forest City, North Carolina
POLYSAR RUBBER SERVICES INC.
Barberton, Ohio
SOLAR CHEMICAL CORPORATION
RESIN DIVISION
Leominster, Massachusetts
POLYSAR LATEX DIVISION
Chattanooga, Tennessee

EUROPE AND REST OF WORLD

COM-SHARE LIMITED
London, England
DISTRIBUDORA ADANAC
Caracas, Venezuela
POLYSAR AUSTRALIA PTY. LTD.
Sydney, Australia
POLYSAR BELGIUM N.V.
Antwerp, Belgium
POLYSAR DEUTSCHLAND GmbH
Neu-Isenburg, Federal Republic of Germany
POLYSAR DE VENEZUELA
Caracas, Venezuela
POLYSAR DO BRASIL PRODUTOS
QUIMICOS LTDA.
Sao Paulo, Brazil
POLYSAR EUROPA S.A.
Brussels, Belgium



POLYSAR FRANCE S.A.
La Wantzenau (Bas-Rhin), France
POLYSAR GmbH
Wiesbaden, Federal Republic of Germany
POLYSAR HANDELMAATSCHAPPIJ B.V.
Amsterdam, The Netherlands
POLYSAR INTERNATIONAL S.A.
Fribourg, Switzerland
BRANCH OFFICES:
Sao Paulo, Brazil
Tokyo, Japan
Mexico City, Mexico
Barcelona, Spain



POLYSAR ITALIANA S.P.A.
Milan, Italy

POLYSAR LTD.
Grand Cayman Islands

POLYSAR NEDERLAND B.V.
Amsterdam, The Netherlands

POLYSAR SKANDINAVISKA A.B.
Goteborg, Sweden

POLYSAR TECHNICAL SERVICE CENTRE N.V.
Antwerp, Belgium

POLYSAR (U.K.) LIMITED
Guildford, England

SOCIETE FRANCAISE POLYSAR
Neuilly/Seine, France

SYNTHETIC ELASTOMERS DEVELOPMENT S.A.
Fribourg, Switzerland

OTHER INTERESTS

BELLAPLAST Group of Companies
Federal Republic of Germany, Switzerland,
Austria, The Netherlands

HULES MEXICANOS S.A.
Mexico City, Mexico

Directors

W. A. DIMMA, Toronto, Ontario
Dean, Faculty of Administrative Studies,
York University

A. JOHN ELLIS, Vancouver, British Columbia
Vice Chairman and Director,
Bank of Montreal

PIERRE R. GENDRON, Montreal, Quebec
▲ President, Pulp and Paper Research
Institute of Canada

H. A. HAMPSON, Toronto, Ontario
▲▲ President and Chief Executive Officer,
Canada Development Corporation

W. LADYMAN, Winnipeg, Manitoba
Member, Economic Council of Canada

WILLIAM S. MCGREGOR
Edmonton, Alberta
President, Numac Oil & Gas Ltd.

E. R. ROWZEE, Sarnia, Ontario
▲ Chairman of the Board, Polysar Limited

I. C. RUSH, Sarnia, Ontario
▲▲ President and Chief Executive Officer,
Polysar Limited

D. C. H. STANLEY, Toronto, Ontario
▲ Vice-President and Director,
Wood Gundy Limited

RON W. TODGHAM, Windsor, Ontario
▲▲ President, Chrysler Canada Ltd.

F. CAMERON WILKINSON,
Vancouver, British Columbia
President, Wilkinson Company Limited

▲ Member of the Executive Committee

▲ Member of the Audit Committee

Officers

E. R. ROWZEE
Chairman of the Board

I. C. RUSH,
President and Chief Executive Officer

R. S. DUDLEY,
Group Vice-President,
Rubber and Latex

G. BRACEWELL
Vice-President, Finance and Planning

G. F. BENTLEY
Vice-President, Rubber,
Europe and Rest of World

E. J. BUCKLER
Vice-President, Research and Development

J. H. LANGSTAFF
Vice-President, Rubber,
North and South America

C. A. MCKENZIE,
Vice-President, Chemicals

J. R. PROVO,
Vice-President, Plastics

W. J. DYKE,
Secretary and Chief Legal Officer

M. E. ERLINDSON
Corporate Treasurer



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